Sources and Levels of Farm Household Income Vary by Type of Farm

Average farm operator household income was about equal to that of all U.S. households in 1996. Only 16 percent of farm households' income came from farming. But, the sources and level of farm household income varied considerably, depending on the type of farm operated. The wealth of farm households, however, consisted largely of their farms, regardless of the type of farm they operated.

On average, 84 percent of farm households' income came from off-farm sources in 1996, mostly from wages and salaries. Operator household income averaged $50,400, which was on par with the $47,100 average for all U.S. households in 1996. The level and sources of income, however, varied with farm and operator characteristics.

This article examines the income of households operating "small farms," as defined by the National Commission on Small Farms, which was established in 1997 by the Secretary of Agriculture to examine issues facing small farms. The Commission used $250,000 in gross sales as its cutoff between small and large farms in its report, *A Time to Act*, released in January 1998. The Commission set the cutoff high enough to include more farm families of relatively modest income who may need or want to improve their net farm income. As a result, the Commission's cutoff includes 9 out of 10 U.S. farms.

A New ERS Classification of Small Farms

A broad category that includes so many farms may be divided for policy discussions. The Economic Research Service (ERS) developed a new farm typology to divide small (and other) U.S. farms into mutually exclusive and more homogeneous groups (see "The Farm Typology," p. 108). The farm typology focuses on "family farms," defined here as farms organized as proprietorships, partnerships, and family corporations. Family farms exclude farms organized as nonfamily corporations or cooperatives, as well as farms with hired managers. Family farms are closely held (legally controlled) by their operator and the operator's household.

The first group identified by the typology is **limited-resource farms**, or family farms with gross sales less than $100,000, farm assets less than $150,000, and household income less than $20,000. This definition is similar to limited-resource definitions used by the Risk Management Agency and the Natural Resources Conservation Service. Identifying this group is critical because agencies may need to develop special efforts to serve limited-resource farmers.

Unlike farmers in the other groups of small farms, limited-resource farmers are not restricted to one major occupation. Limited-resource farmers may report farming, a nonfarm occupation, or retirement as their major occupation. The limited-resource group identifies farmers with low sales, income, and assets, regardless of their major occupation.

The remaining small family farms are classified into one of three additional groups based on the major occupation of the operators—the occupation at which they spend more than 50 percent of their work time.

- **Retirement farms.** Small farms, the operators of which are retired. The operators may have had either a farm or nonfarm occupation before retirement. However, they still are engaged enough in farming to produce at least $1,000 of farm products, the minimum necessary for an establishment to be classified as a farm.
- **Residential/lifestyle farms.** Small farms, the operators of which report a major occupation other than farming. Some operators in this group may view their farms strictly as a hobby that provides a farm lifestyle. For others, the farm provides a residence and may supplement their off-farm income. Some may hope to eventually farm full-time. Some operators in this group may not actually live on their farm, but visit it in their spare time.
- **Farming occupation farms.** Small farms, the operators of which report farming as their major occupation. Although the operator spends most of his or her time farming, the household may receive substantial income from off-farm work by other household members and part-time off-farm work by the operator. Larger and small-

er farms in this group differ in their characteristics, so the group is further divided into two additional subgroups based on gross sales:

* **Lower sales farms.** Farming occupation farms with sales less than $100,000.
* **Higher sales farms.** Farming occupation farms with sales between $100,000 and $249,999.

Three additional groups of farms were added to the typology to ensure that it covers all farms. **Large family farms** have sales between $250,000 and $499,999, and **very large family farms** have sales of $500,000 or more. Finally, the **nonfamily farms** group includes farms organized as nonfamily corporations or cooperatives and farms with hired managers.

The information presented here is from the 1996 Agricultural Resource Management Study (ARMS), conducted by ERS and the National Agricultural Statistics Service (NASS), both USDA agencies. ARMS is an annual survey that collects information from farmers across the United States. It is the only source of farm business and farm household data complete enough to produce the typology (see “Data and Definitions” in the appendix for more information about the survey).

Large and Very Large Family Farms Produce Half of Farm Output

Although most U.S. farms are classified as small family farms, agricultural production is highly concentrated among large and very large family farms. These two groups together made up 8 percent of all farms in 1996, but accounted for 57 percent of U.S. production of agricultural products (fig. 1). Some small farms also made a substantial contribution to production. Small farms with high sales were responsible for 20 percent of the value of production, about the same percentage contributed by large farms. And small farms with lower sales accounted for another 10 percent of production.

The Farm Typology

Small Family Farms (sales less than $250,000)

1. **Limited-resource farms**. Any small farm with (1) gross sales less than $100,000, (2) total farm assets less than $150,000, and (3) total operator house hold income less than $20,000. Limited-resource farmers may report farming, a nonfarm occupation, or retirement as their major occupation.
2. **Retirement farms.** Small farms, the operators of which report they are retired. (Excludes limited-resource farms operated by retired farmers.)
3. **Residential/lifestyle farms**. Small farms, the operators of which report a major occupation other than farming. (Excludes limited-resource farms with operators reporting a nonfarm major occupation.)
4. **Farming occupation/lower sales.** Small farms with sales less than $100,000, the operators of which report farming as their major occupation. (Excludes limited-resource farms with operators reporting farming as their major occupation.)
5. **Farming occupation/higher sales**. Small farms with sales between $100,000 and $249,999 with operators reporting farming as their major occupation.

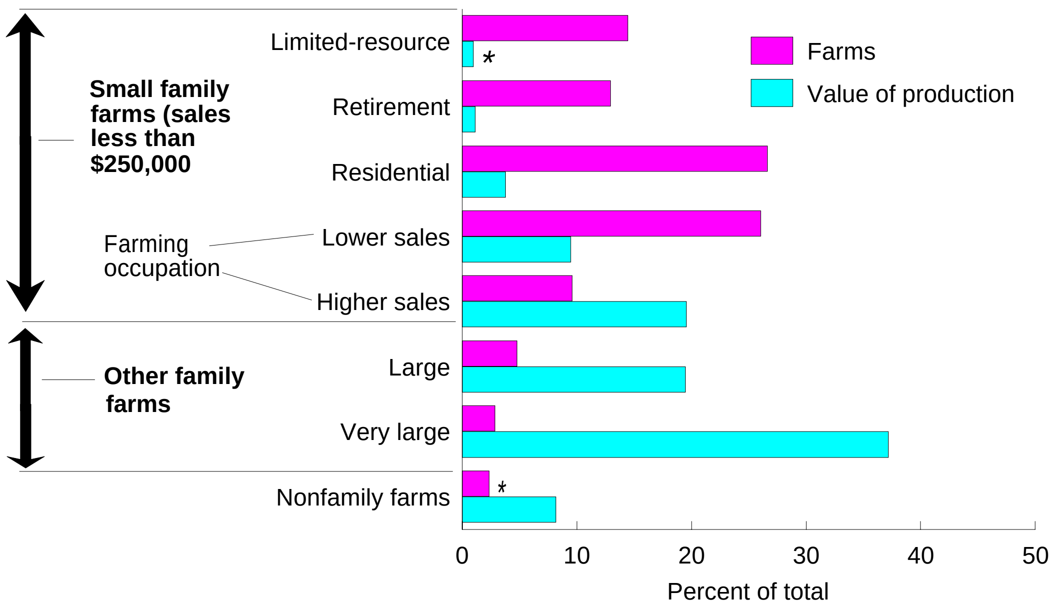
Other Farms

6. **Large family farms.** Sales between $250,000 and $499,999.
7. **Very large family farms.** Sales of $500,000 or more.
8. **Nonfamily farms.** Farms organized as nonfamily corporations or cooperatives, as well as farms operated by hired managers.

Figure 1

Share of farms and value of production, by farm typology group, 1996

Large and very large family farms account for 57 percent of the value of production



*The relative standard error exceeds 25 percent but is no more than 50 percent.
Source: USDA, Economic Research Service, 1996 Agricultural Resource Management Study.

At the other extreme, about half of all U.S. farms were in the limited-resource, retirement, and residential/lifestyle categories, but these farms produced only 6 percent of farm output. Most farm businesses are very small because only $1,000 of farm sales is necessary for an establishment to be classified as a farm according to the official U.S. definition. As shown below, many farm households rely on off-farm income—either by choice or necessity—because most establishments classified as farms produce too little to support a family.

Levels and Sources of Income Vary

The levels and sources of income varied widely from group to group (fig. 2). Households operating very large farms had the highest average household income, $193,800, about four times the average for all U.S. households. These households received only 18 percent of their income from off-farm sources. (See app. table 20 for more information about the income of farm households).

Households operating residential/lifestyle farms or large farms also had an average income above the average for all U.S. households, but the sources of income differed between the two groups. Households with residential/lifestyle farms received virtually all of their income from off-farm sources. Forty-six percent of these farms specialized in beef, which in the case of cow-calf enterprises can have relatively low labor requirements compatible with off-farm work (see app. table 21 for more information about the characteristics of farms in the typology). In contrast, households with large farms received only 30 percent of their income from off the farm. Cash grain was the most common specialization for large family farms (40 percent).

Households operating retirement farms or higher sales small farms had an average income that did not differ from the average for all U.S. households by a statistically significant amount. Nearly all the income of households with retirement farms came from off the farm, and 62 percent of their off-farm income was from unearned sources, such as

Figure 2

Total, farm-related, and off-farm income per operator household, by farm typology group, 1996

Small farms depend heavily on off-farm income

Note: Household income data are not collected for nonfamily farms. Earnings from off-farm sources can be larger than total household income if earnings from farming activities are negative.

*The relative standard error exceeds 25 percent but is no more than 50 percent.

d = Earnings from farming activities supressed because the standard error exceeds 75 percent.

Source: USDA, Economic Research Service, 1996 Agricultural Resource Management Study for operator household data. U.S. Bureau of the Census, Current Population Survey for all U.S. households.

Social Security and investment income. About 36 percent of retirement farms specialized in beef cattle. For another 21 percent of retirement farms, the Conservation Reserve Program (CRP) was the sole source of farm income. The cropland had retired on these farms—at least temporarily—as well as the farmer.

Unlike households running retirement farms, households operating small higher sales farms received just 57 percent of their income from off-farm sources. Cash grain was the most common specialization for high-sales farms (49 percent), and another 21 percent specialized in dairy. As one would expect from these specializations, 63 percent of higher sales farmers lived in the Lake States, Corn Belt, and Northern Plains. (See “Definitions” in the appendix for the States in each major farming region.)

The two remaining groups, lower sales and limited-resource farm households, had average household incomes below the average for all U.S. households and relied heavily on off-farm income. Income for households operating lower sales small farms averaged $31,500, or 67 percent of the average for all U.S. households. Practically all of their income came from off-farm sources, on average. Like retirement farms and residential/lifestyle farms, lower sales farms often specialized in beef cattle (38 percent).

Off-farm income averaged $13,600 for households with limited-resource farms, but they lost an average of $3,000 from farming. As a result, they averaged only $10,600 in total household income, or about one-fifth of the average for all U.S. households. Most limited-resource farmers did not report farming as their major occupation. Nearly half (49 percent) were retired, and another 19 percent had a nonfarm occupation. Most (54 percent) limited-resource farms specialized in beef cattle, a good fit for those who were retired or worked off-farm. Limited-resource farms were largely a Southern phenomenon; 62 percent of limited-resource farmers lived in Southern farming regions.

Although many farm households relied heavily on off-farm sources for income, most operator household wealth came from the farm, regardless of the type of farm operated (fig. 3). Except for households operating limited-resource farms, each group of households had an average household net worth above the $205,900 average for all U.S. households for 1995, as reported by the most current Survey of Consumer Finances. Most of the net worth of operator households is illiquid and not readily available for spending, since it is largely based on assets necessary for farming.

Black Farmers More Likely to Be Limited-Resource Farmers

ARMS does not have sufficient sample size to examine farms in the minority-concentration county groups discussed elsewhere in this issue of *Rural Conditions and Trends*. Nevertheless, some comparisons between Black and White farmers are possible at the national level. Black farm households had a much lower average household income ($19,600) than White farm households ($52,300) (fig. 4). About 43 percent of Black farmers operated limited-resource farms, compared with 13 percent of White farmers. (The difference between the Black and White estimates of limited-resource farmers was statistically significant only at the 89-percent level, however.)

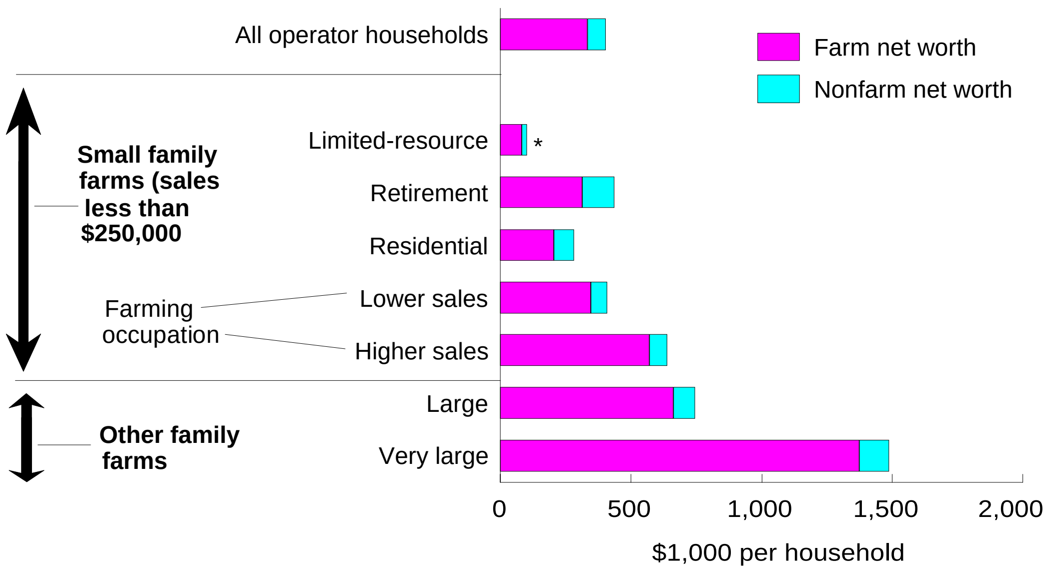
Both Farm and Nonfarm Economy Are Important to Farmers

The information presented above has policy implications for any discussion of farm households. Regardless of the type of farm, operators of small farms rely to some extent on off-farm income. On average, virtually all income comes from off-farm sources for households operating limited-resource, retirement, residential/lifestyle, or low-sales farms. Even households with large farms and very large farms receive substantial off-farm income (an average of $22,400 and $35,000, respectively), although most of their income comes from farming activities. As a result, the nonfarm economy is an important issue for farm operators and their households. For the half million residential/lifestyle farmers, the nonfarm economy is essential. For operators of retirement farms (and retired operators of limited-resource farms), the status of retirement programs, the Conservation Reserve Program (CRP), and the returns on investments are also critical.

Nevertheless, operators of many small farms may be interested in improving their earnings from farming activities through such measurers as extension education, innovative marketing programs, and credit targeted specifically at small farms. Trying to raise earnings from farming may be particularly appropriate for limited-resource farmers. Even modest improvements in household income could be important to these low-income farmers.

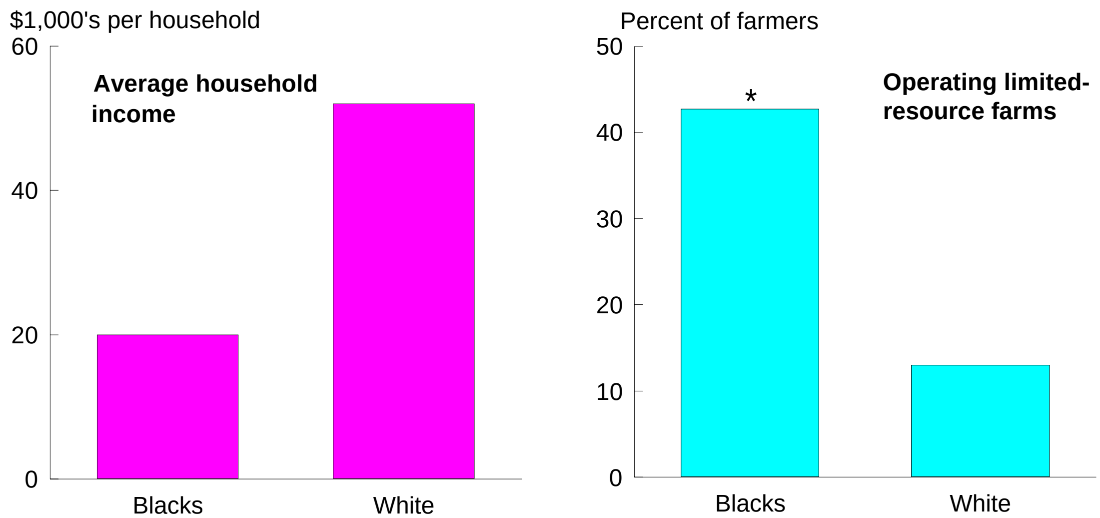
Traditional farm programs—including transition payments under the 1996 farm legislation—may be of limited use to most small farms. Farm programs focus on grain, cotton, and dairy products, while many small farmers specialize in beef cattle. Farm programs are most relevant to higher sales small farms, since half of them specialize in cash grain. *[Robert A. Hoppe, 202-694-5572, rhoppe@econ.ag.gov]*

Figure 3
Average farm operator household net worth, by farm typology group, 1996
Most farm operator households' wealth comes from the farm



Note: Household net worth data are not collected for nonfamily farms.
*The relative standard error exceeds 25 percent but is no more than 50 percent.
Source: USDA, Economic Research Service, 1996 Agricultural Resource Management Study.

Figure 4
Average household income and percentage operating limited-resource farms for Black and White farmers, 1996
Black farmers have lower average household income and are more likely to operate limited-resource farms



*The relative standard error exceeds 25 percent but is no more than 50 percent.
Source: USDA, Economic Research Service, 1996 Agricultural Resource Management Study.

Defining Household Income

The Current Population Survey (CPS), conducted by the Bureau of the Census, is the source of official U.S. household income statistics. Thus, calculating an estimate of farm household income from the Agricultural Resource Management Study (ARMS) that is consistent with CPS methodology allows income comparisons between farm operator households and all U.S. households.

The CPS definition of farm self-employment income is net money income from the operation of a farm by a person on his or her own account, as an owner or renter. CPS self-employment income includes income received as cash, but excludes in-kind or nonmoney receipts. The CPS definition departs from a strictly cash concept by deducting depreciation, a noncash business expense, from the income of self-employed people.

Farm self-employment income from the ARMS is the sum of the operator household's share of farm business income (net cash farm income less depreciation), wages paid to the operator, and net rental income from renting farmland. Adding other farm-related earnings of the operator household yields earnings of the operator household from farming activities. (Other farm-related earnings consists of net income from a farm business other than the one being surveyed, wages paid by the farm business to household members other than the operator, and commodities paid to household members for farm work.)

Earnings of the operator household from farming activities is not a complete measure of economic well-being provided by the farm. It leaves out some resources the farm business makes available to the household. For example, depreciation is an expense deducted from income that may not actually be spent during the current year. Increases in inventories are excluded from the earnings measure, but they could be sold to raise cash. Nonmoney income, such as the imputed rental value of a farm-owned dwelling, represents a business contribution to household income because it frees up household cash that would otherwise be spent on housing. Finally, earnings of the operator household from farming activities does not reflect the large net worth of many farm operator households.